Renewable Fuels Association

Energy and Commerce Committee
U.S. House of Representatives

Hearing on

Boutique Fuels

Testimony of

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Good morning, Mr. Chairman and Members of the Committee. My name is Bob Dinneen and I am president of the Renewable Fuels Association, the national trade association representing the U.S. ethanol industry, the fastest growing renewable energy resource in the world.

In fact, I am proud to report that just since the last time I was privileged to testify before this Committee, less than a month ago, four more ethanol biorefineries have opened, bringing the total number of operational facilities to 101, and annual production capacity to more than 4.8 billion gallons. There are 32 plants under construction, and we anticipate ending the year with at least 115 biorefineries in operation and more than 5.7 billion gallons of production capacity.

I am pleased to be here today to discuss the complex issue of "boutique fuels." A boutique fuel is one that reduces gasoline fungibility because its fuel specifications differ from federal standards. As noted in the Environmental Protection Agency's proposed list, examples of boutique fuels include low RVP or low sulfur programs several states have adopted as alternatives to federal reformulated gasoline.[1]

It is important to understand that simply adding ethanol to gasoline does not constitute a "boutique fuel." Indeed, ethanol is blended in 40% of the nation's fuel. Ethanol today is either blended with a fully fungible RBOB (reformulated gasoline blendstock for

[1] Section 1541(b) of the EPAct required EPA to publish a list of boutique fuels. The Agency published its list on June 1, 2006.

oxygenate blending) in federal RFG areas to meet appropriate emissions standards or with a fungible conventional gasoline, which adds volume and octane to the motor fuel supply. Blending ethanol with conventional gasoline requires no unique blend from refiners and does not add to the complexity of the fuel distribution system.

State Biofuels Programs

I understand that some are concerned about the proliferation of state biofuels programs because they believe these programs may undermine the flexibility intrinsic to the national renewable fuels standard (RFS) adopted as part of last year's Energy Policy Act (EPAct). I am sympathetic to that concern. The Renewable Fuels Association worked in good faith with the American Petroleum Institute and others to pass a *national* RFS that gave refiners maximum flexibility to blend ethanol and other biofuels wherever the market place determined. To an extent, state biofuels mandates do chip away at that flexibility. But that is an issue affecting RFS implementation; one that states should appropriately weigh when contemplating such programs. It is NOT a "boutique fuel" issue.

Even from an RFS implementation standpoint, however, the concerns about state biofuels programs might be overstated. First, only two state programs are currently in place (Minnesota & Hawaii); and those areas where such programs have been adopted[2] or are proposed[3] are largely in areas where refiners would be likely to utilize biofuels to meet RFS requirements in any case, i.e., in states with significant existing or potential ethanol production capacity. Indeed, several of the proposed state programs would not become effective until there is meaningful biofuels production in the state.[4]

Second, not all of the biofuels programs rely upon mandates. Iowa just enacted a very aggressive 25% oil displacement program by 2019 that relies entirely upon tax incentives to motivate gasoline marketers to install biofuels infrastructure allowing for much greater ethanol, E-85 and biodiesel use.[5] The Iowa legislation had support from the local petroleum industry and it is likely to become a model for other states to follow.

It is also important to note that EPA's authority to regulate fuels is rooted in the impact fuel specifications have on air quality. EPA has no authority to preempt state programs that are imposed in pursuit of other public policy objectives, such as rural economic development or fuel diversity, particularly when the programs are not included in a State Implementation Plan.

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[2] Montana, Washington, Missouri and Louisiana have passed various biofuels requirements, but they are not yet in effect.

[3] California, Delaware, Idaho, Illinois, Kansas, Nebraska, New Mexico, and Virginia have biofuels legislation pending in the state legislature.

[4] Idaho, Lousiana, Montana and Virginia have in-state ethanol production requirements before the enacted or proposed biofuels requirement becomes effective.

[5] Iowa provides retail tax incentives for E-10 dependent upon an RFS schedule, retail tax incentives for biodiesel and E-85, and provides grants of up to $30,000 for the installation of biofuels refueling infrastructure. There are no mandates for either ethanol or biodiesel.

Such is the case with state biofuels programs. I certainly understand why states are contemplating programs to stimulate biofuels production and use in their states. They are anxious to capture the tremendous economic benefits local ethanol and biodiesel production will provide. Consider the local economic impact of just one 100 million gallon ethanol plant:

- Generate $406 million for the local community;
- Increase the state's Gross Output by $223 million;
- Increase household income by more than $50 million; and
- Create nearly 1,600 local jobs. [6]

The State of Minnesota was the first state to enact a biofuels mandate, and it remains the most progressive state in terms of promoting renewable fuels today. Minnesota enacted an ethanol mandate ten years ago and implemented a biodiesel requirement earlier this year. Every gallon of gasoline sold in Minnesota today is blended with 10% ethanol. The state's diesel fuel is blended with 2% biodiesel. Ethanol is added to conventional gasoline. Biodiesel is added to conventional diesel. No refinery modifications are necessary with either program and they do not inhibit fuel fungibility. By extending conventional gasoline and diesel supplies, the Minnesota ethanol and biodiesel programs likely reduce consumer motor fuel costs in other states as well.

Minnesota's ethanol program has been a remarkable success. From just one plant producing about 50 million gallons in 1995, the State last year had 16 ethanol biorefineries producing 420 million gallons, generating more than $1.5 billion in economic output and supporting 5,840 jobs.[7] With ongoing expansions, Minnesota anticipates producing more than 550 million gallons of ethanol this year, resulting in even greater economic benefit to the State.

Congress should not impinge on a state's ability to pursue such economic development.

Consider this statement by Missouri Governor Matt Blunt upon the passage of a new state ethanol requirement last month, "I am proud your elected leaders have met my call for an E-10 standard. This important legislation will benefit our farm families, provide a lasting boost to our state's economy, improve our air quality and help secure Missouri's position on the top tier of ethanol production and utilization."

Iowa Governor Tom Vilsack echoed that sentiment as he signed an aggressive incentive-based biofuels program last week, "Today is an extraordinarily important day in the state of Iowa for anyone who cares about economic development, for anyone who cares about the environment, for anyone who cares about energy independence and making more out of what we grow."

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[6] Dr. John Urbanchuk, LECG, LLC, *Contribution of the Ethanol Industry to the Economy in the U.S. in 2005*, February 2006.

[7] http://www.mda.state.mn.us/ethanol/plantsreport.pdf

Conclusion

If the Committee concludes "boutique fuels" are a contributing factor to rising consumer gasoline prices, the Renewable Fuels Association would support the Committee's draft legislation. The bill would reduce the number of fuels refiners must produce and improve overall gasoline fungibility. That would be helpful in the event of any disruption in gasoline production or distribution. At the same time, the bill appropriately preserves the ability of states to pursue biofuels programs that do not burden either refiners or the gasoline distribution system. While I will continue to support the flexibility inherent in a *national* RFS, states should continue to have the right to weigh the concerns of refiners against their own economic development objectives.

Thank you.